



Investor Presentation Q1-2021

May 26, 2021





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Bezeq Group Focus for 2021

Group Vision

To lead the telecommunications market in Israel, providing a full range of telecommunications products and services for the residential and business markets and striving for continuous improvement in operating results

- Accelerated deployment of **fiber optics** for the residential sector as a **future growth engine**, and continued strengthening of the business sector in Bezeq Fixed-Line
- Continued streamlining in key subsidiary companies (Project Alpha 2) with ongoing improvement in free cash flow
- Implementation of **structural change** in yes and Bezeq International:
 - Spin-off of the ICT business division to a separate company
 - Merge Bezeq International's consumer Internet operations into yes
- The structural change will create two **growth-oriented companies** – one for the IT market and one for the residential sector
- Pelephone will focus on marketing **5G as a growth engine** and increase ARPU



Focus on Building Infrastructure and Growth Engines



Key Highlights – Q1-2021 Financial Results



- Adjusted EBITDA* of NIS 918 million, up 1.2% y-o-y
- Adjusted net profit* of NIS 299 million, a decline of 8.0% y-o-y
- Free cash flow of NIS 323 million, down 25.9% y-o-y
- Decrease of NIS 887 million in net debt (y-o-y) and improved liquidity ratios
- Israeli rating agencies affirmed Bezeq's debt rating; Midroog removed its negative credit review

Bezeq Fixed-Line

- Increase in revenues for the fourth consecutive quarter
- Continued improvement in key operating metrics.
 - Increase in retail broadband Internet subscribers
 - Increase in retail broadband Internet ARPU
 - Moderate decrease in telephony access lines
- Launch of fiber project – 480,000 homes passed as of today

Subsidiary Companies

- Board decision to approve the plan for structural change in the subsidiaries: merger between Bezeq International and yes as well as the spin-off of the ICT business division to a new and separate company
- Decrease in Telephone service revenues primarily due to effect of COVID-19 on mobile roaming revenues
- Streamlining measures led to decrease in operating expenses
- Successful deployment and growth in 5G subscribers
- Growth in Telephone postpaid subscribers
- Improved free cash flow in yes
- Increase in yes IP subscribers to 29%
- Following implementation of the recommendations of the external examiner's report, the material weakness in internal controls over financial reporting in Bezeq International was removed

Regulation

- Bezeq submitted its response to the MOC hearings on fixed voice telephony tariffs and unified broadband services (infrastructure and ISP)
- Filed request with the MOC and the Tax Authority for approval of the merger between Bezeq International and yes
- Anti-Trust Authority decision permitting subsidiary companies to offer bundles without limitations

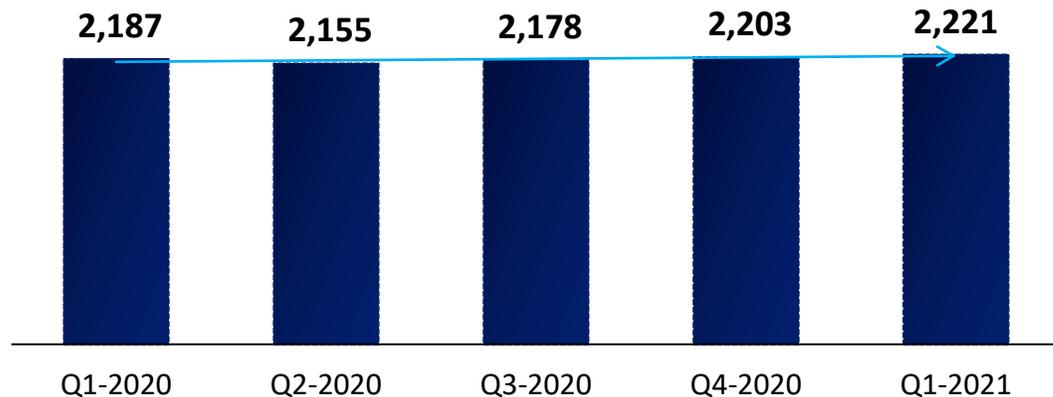
Financial Results Bezeq Group



Bezeq Group – Key Financial Metrics | NIS Million

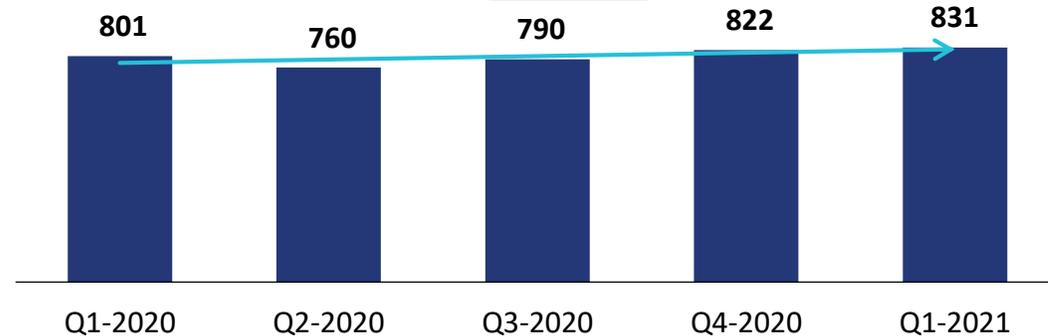
Revenues

↑ 1.6%



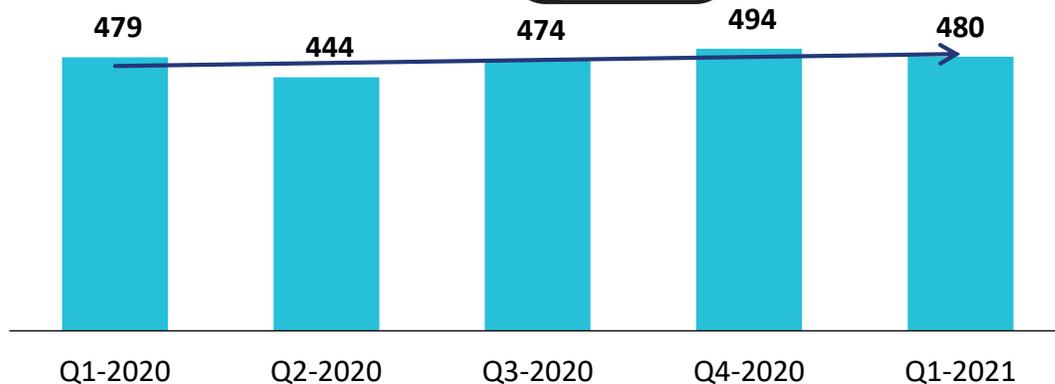
Operating Expenses

↑ 3.7%



Salary Expenses, Net

↑ 0.2%



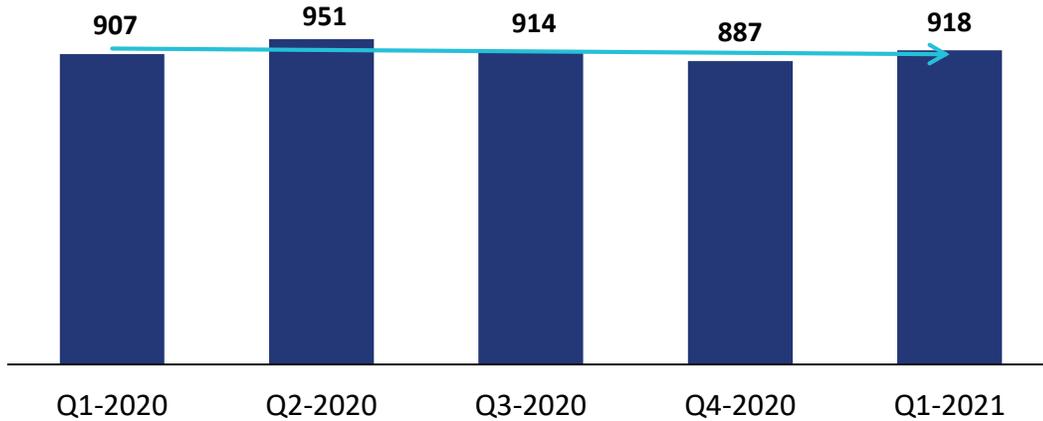
- Increase in Bezeq Fixed-Line revenues was partially offset by a decrease in revenues of subsidiary companies (impacted by a sharp decrease in roaming revenues due to the pandemic)
- Decrease in salary expenses of subsidiary companies was offset by increases in Bezeq Online and Bezeq Fixed-Line



Bezeq Group – Key Financial Metrics (Cont'd) | NIS Million

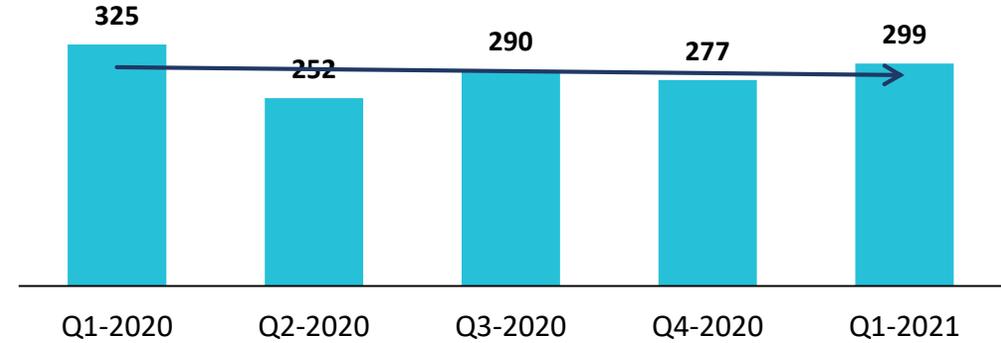
Adjusted EBITDA*

↑ 1.2%



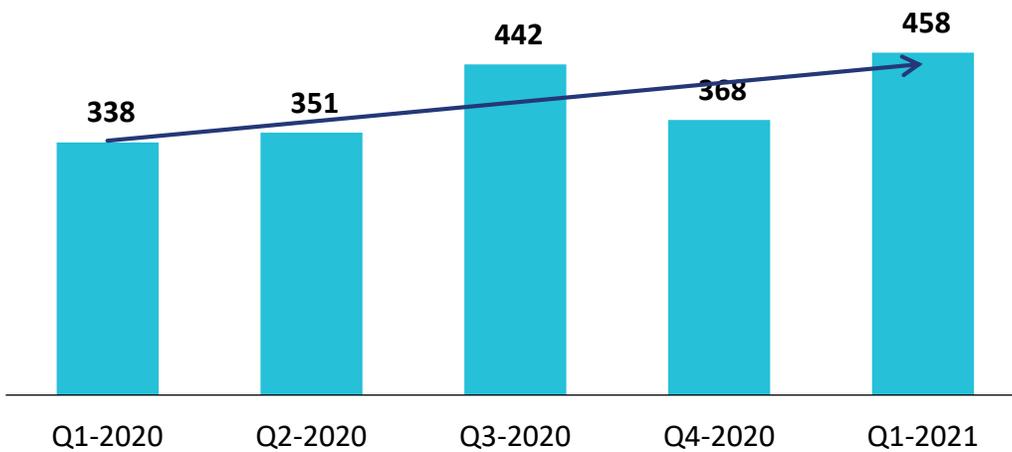
Adjusted Net Profit*

↓ 8.0%



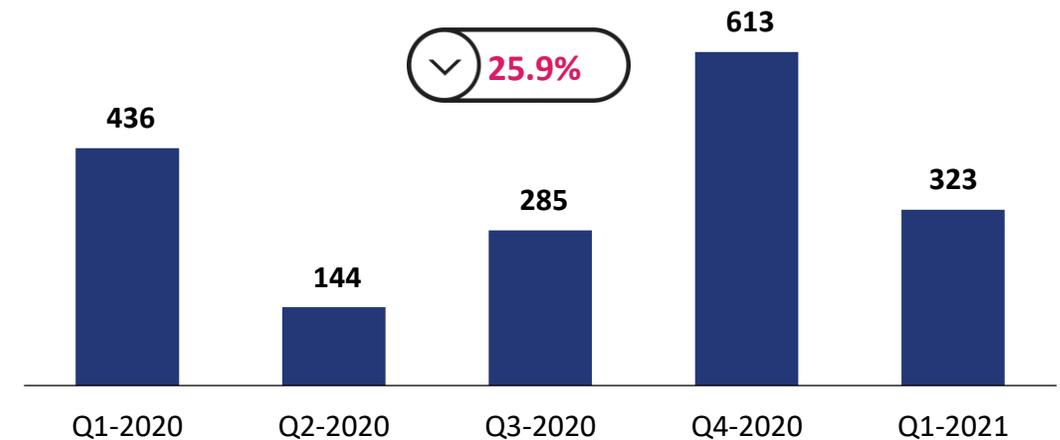
Gross Capex

↑ 35.5%



Free Cash Flow

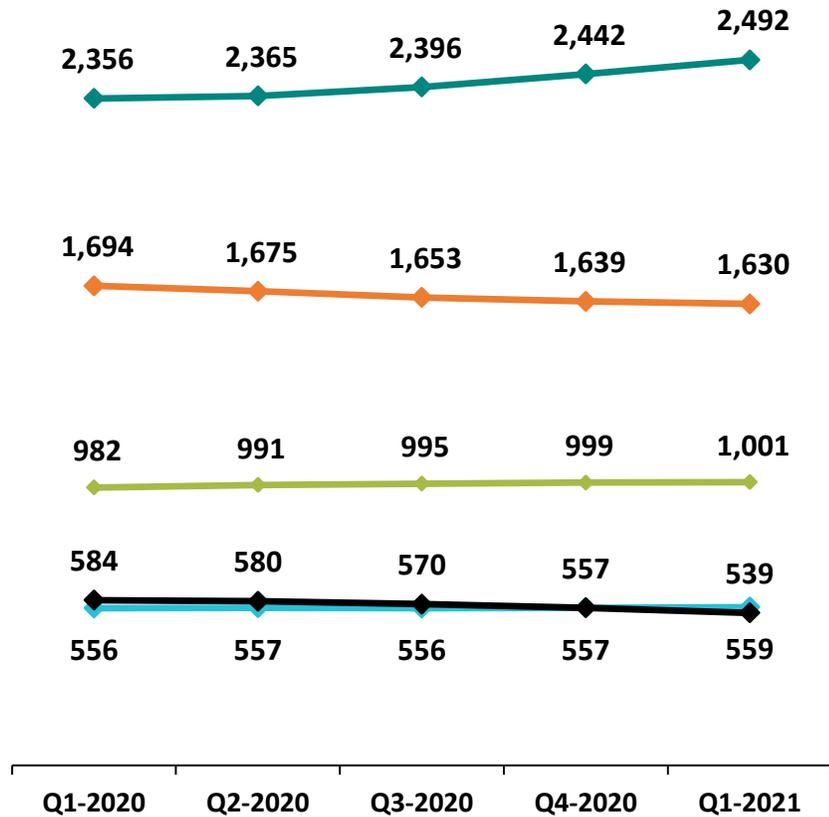
↓ 25.9%



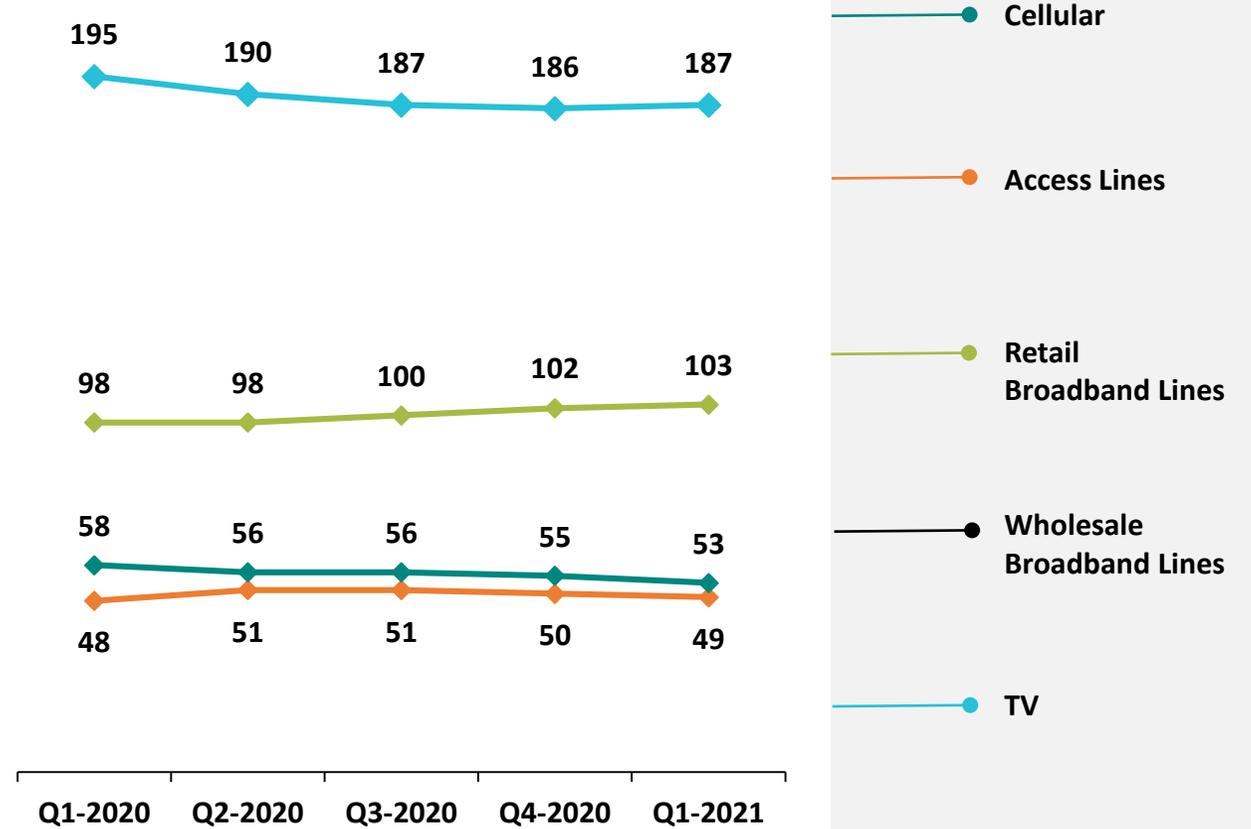


Bezeq Group - KPIs

Subscribers (end of quarter, in thousands)



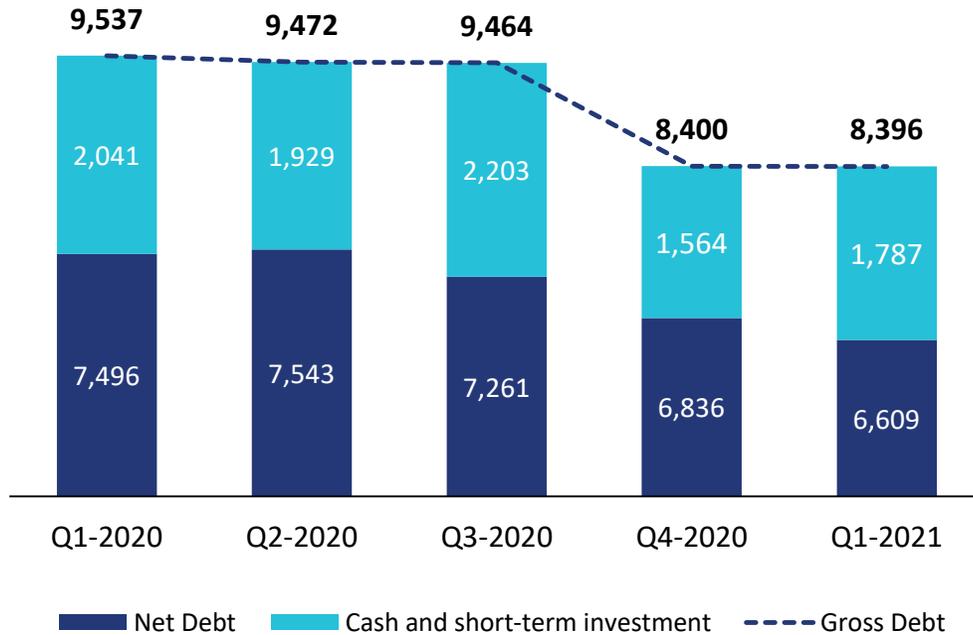
ARPU (NIS)





Bezeq Group - Financial Debt | NIS Million

12% Decrease y-o-y in Net Debt



Continued decrease in net debt

- Decrease of NIS 887 million y-o-y, ~12%

Further improvement in liquidity ratio

- Net debt/EBITDA ratio decreased to 2.0 from 2.3 in Q1-20

Israeli debt ratings

- S&P Maalot and Midroog affirmed debt ratings (May 2021)
- Midroog removed negative credit review

Rating Agency	Rating	Outlook
S&P Global Maalot	-ilAA	Stable
Midroog	Aa3.il	Stable



Bezeq Group - 2021 Outlook

As of the date of publishing the Q1-21 report, there is no change to the Bezeq Group's outlook for 2021, as published in the Company's periodic report for the year 2020. We continue to expect:

	Updated Outlook
Adjusted net profit attributable to shareholders ¹	NIS 1.0 billion
Adjusted EBITDA ¹	NIS 3.5 billion
CAPEX ²	NIS 1.7 billion

The Company shall report, as required, deviations of more/less than 10% of the amounts stated in the outlook

1) Adjusted net profit and Adjusted EBITDA – after adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock based compensation. Adjusted EBITDA and Adjusted Net Profit in 2020 were NIS 3.66 billion and NIS 1.14 billion, respectively.

2) CAPEX - gross payments for investments in fixed and intangible assets. CAPEX in 2020 amounted to NIS 1.50 billion

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations.

The Group's forecasts are based, among other things, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2021. Actual results may differ from these estimates taking note of changes that may occur in the foregoing, in business conditions, and the effects of regulatory decisions, technology changes and developments in the structure of the telecommunications market, and so forth, or the realization of one or more of the risk factors listed in the Periodic Report of 2020. In addition, there is no certainty that the outlook will be fully or partially fulfilled, among other things, due to the COVID-19 pandemic and the resulting uncertainty.

A young girl with long brown hair is wearing large, pink over-ear headphones and is smiling while looking at a tablet computer. She is wearing a blue and white patterned top. In the background, a man and a woman are sitting on a light-colored sofa, looking down at their own devices. The man is wearing a blue long-sleeved shirt and jeans, and the woman is wearing a grey and white striped long-sleeved shirt and blue jeans. The scene is set in a bright, indoor environment with light-colored walls and a window with white curtains in the background.

Bezeq Fixed Line



Bezeq Fixed-Line – Q1-2021 Highlights

- **Strong financial results**
 - Revenues grew 3.5% y-o-y
 - Adjusted EBITDA was up 3.7% y-o-y
- Continued **robust sales of equipment** led to increased retail broadband ARPU
- Growth in **retail broadband lines** for the fourth consecutive quarter
- Moderate decrease in fixed-voice telephony access lines
- Launch of **fiber project** and beginning of customer connections
 - 480,000 homes passed
 - On track to reach our target of 1 million homes passed by the end of 2021
- MSCI raised Bezeq's **ESG rating** from BB to BBB



Fiber Deployment Proceeding at Record Pace

Homes Passed
(In thousands)



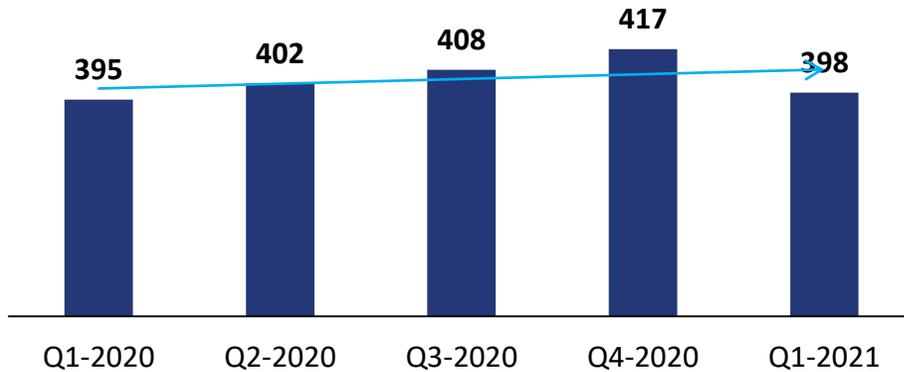


Bezeq Fixed-Line - Broadband Internet Services

Revenues from Broadband Internet Services

(NIS million)

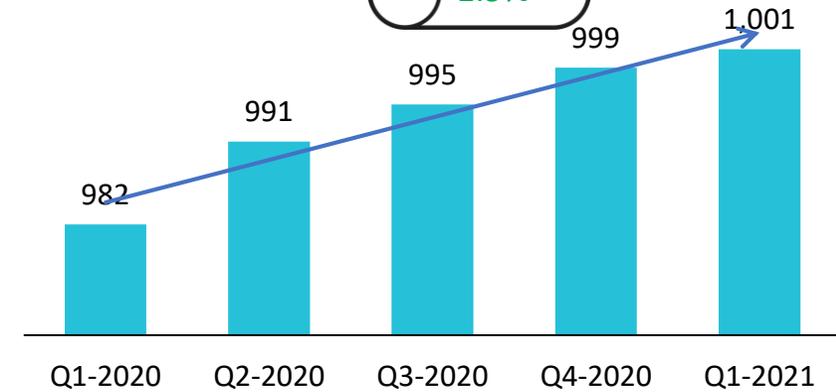
^ 0.8%



Bezeq Retail Broadband Lines

(Thousands)

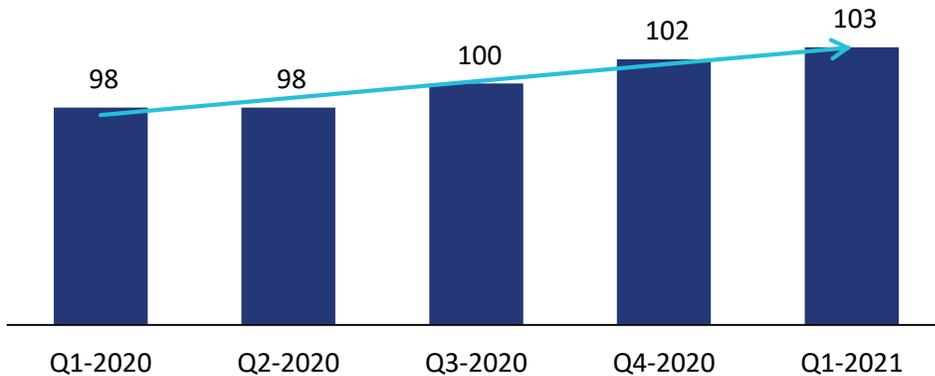
^ 1.9%



Retail ARPU

(NIS)

^ 5.1%



- **Revenues** from broadband services grew 0.8% y-o-y despite the decrease in wholesale rates
- **Growth in broadband retail lines** for the fourth consecutive quarter
- Accelerated **sales of equipment** (BE router, Bspot, Be Mesh) contributed to the **increase in ARPU**

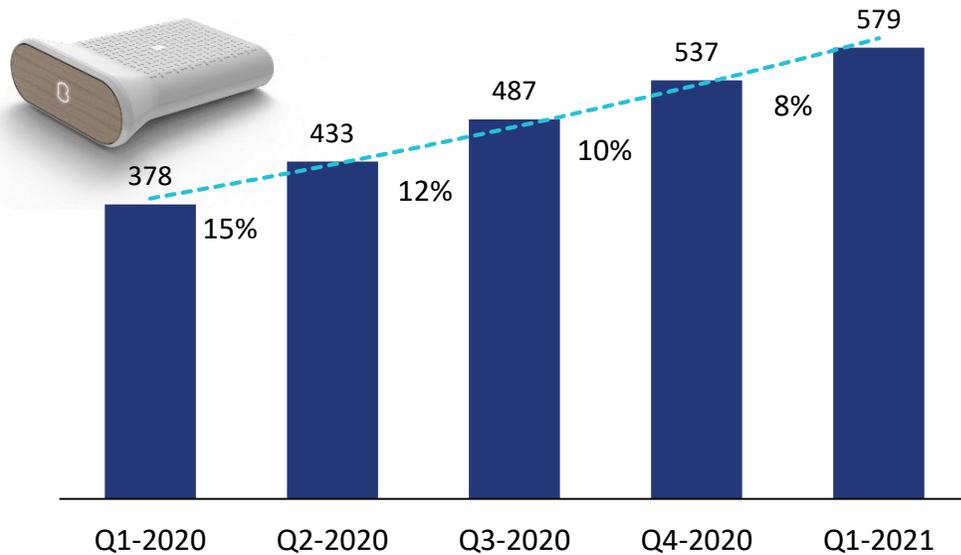


Bezeq Fixed-Line - Full WiFi Differentiation

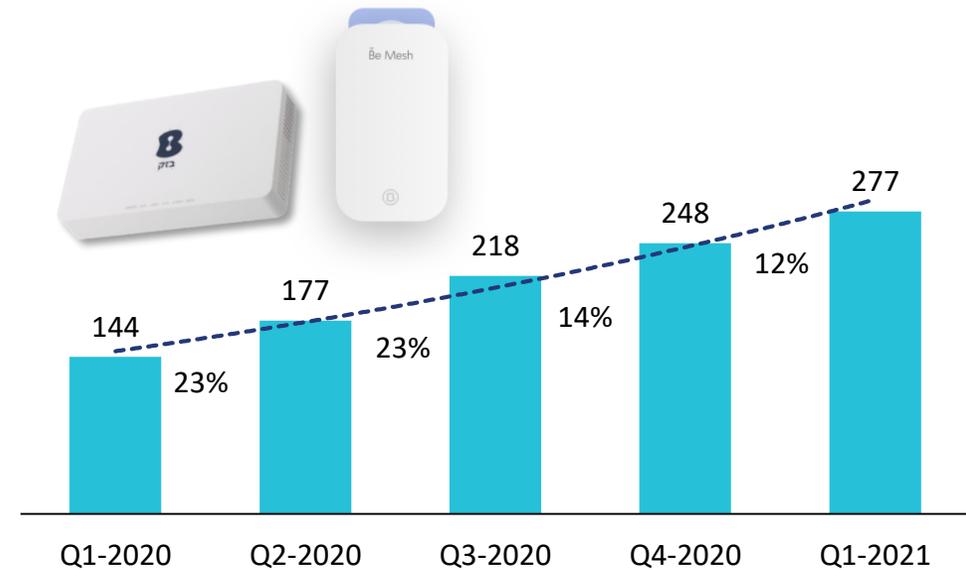
with High Quality Broadband Internet at Home

Improved broadband experience and customer retention through BE router and Bspot/Be Mesh services

Customers with BE router (in thousands)



Customers with BSPOT and MESH (in thousands)



~58% of the Company's retail customers choose to connect via the BE router

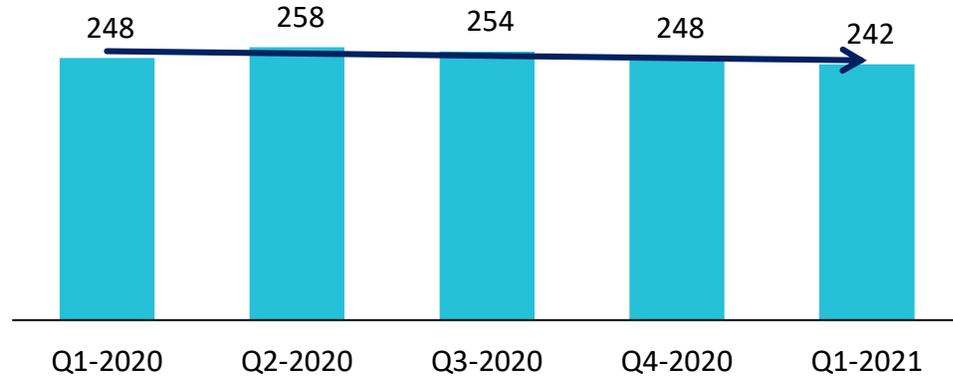


Bezeq Fixed-Line - Telephony Services

Telephony Revenues

(NIS millions)

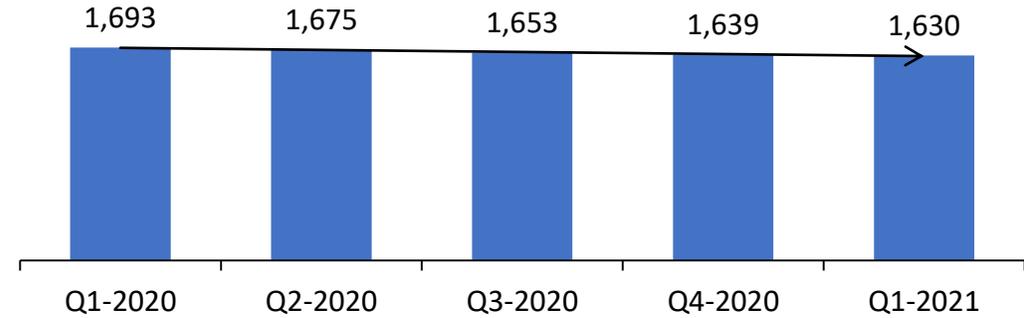
2.4%



Access Lines

(Thousands)

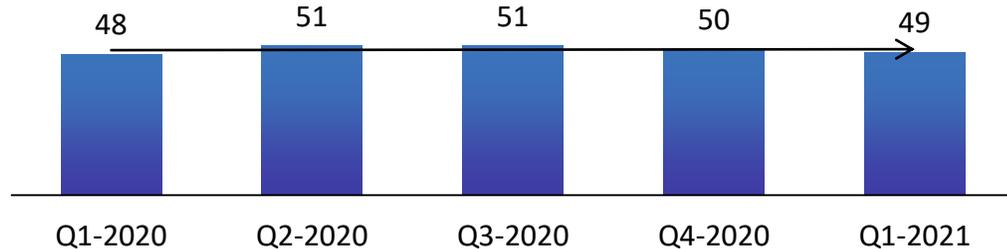
3.8%



Telephony ARPL

(NIS)

2.1%



- **Significant increase in traffic** due to COVID-19

- Outgoing minutes increased 9% y-o-y
- Incoming minutes increased 15% y-o-y

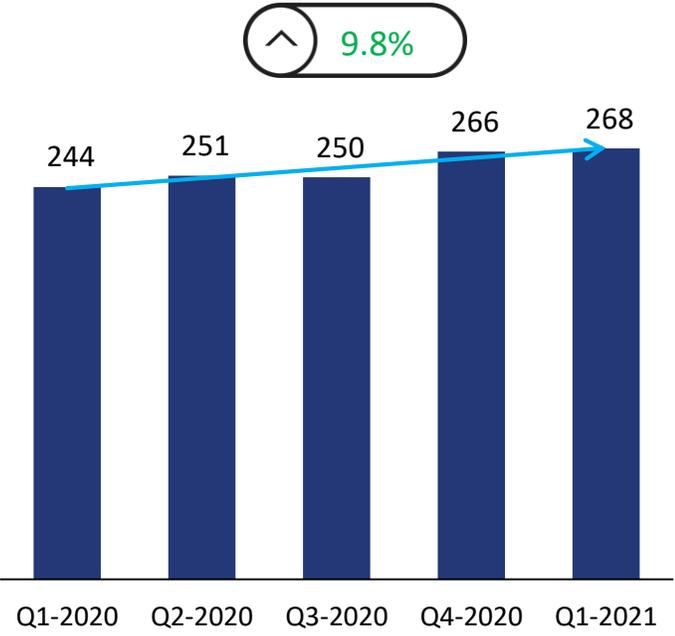
- **ARPL grew** to NIS 49 (from NIS 48 in Q1 20)

- Moderate decrease of 9,000 telephony lines, compared to average quarterly decrease of 20,000 lines in 2020



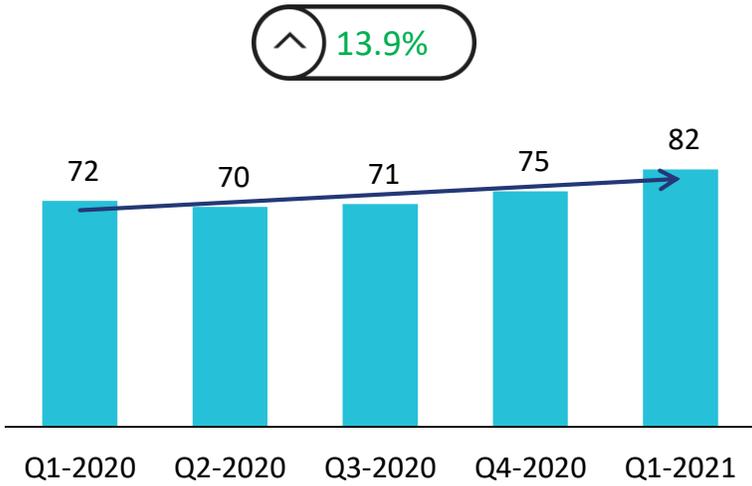
Bezeq Fixed-Line - Revenues from Transmission and Data Communications, Cloud & Digital Services and Other | NIS Million

Transmission & Data



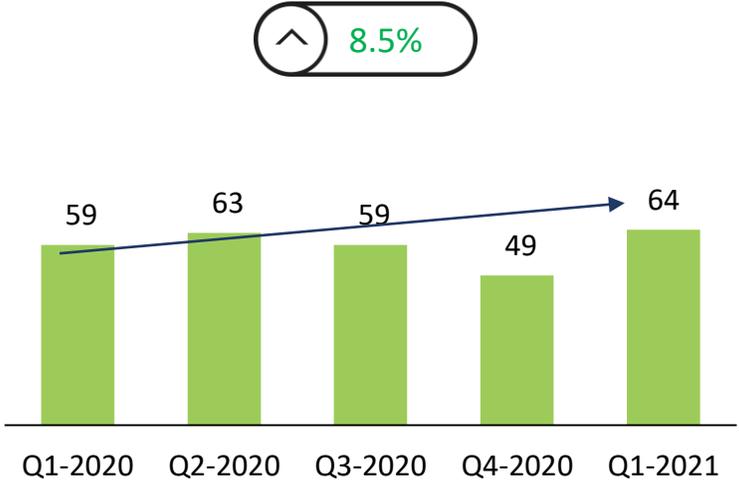
- Increase in revenues from transmission services for ISPs and business customers

Cloud & Digital Services



- Increase in revenues from virtual exchanges and cloud services for businesses

Other Revenues



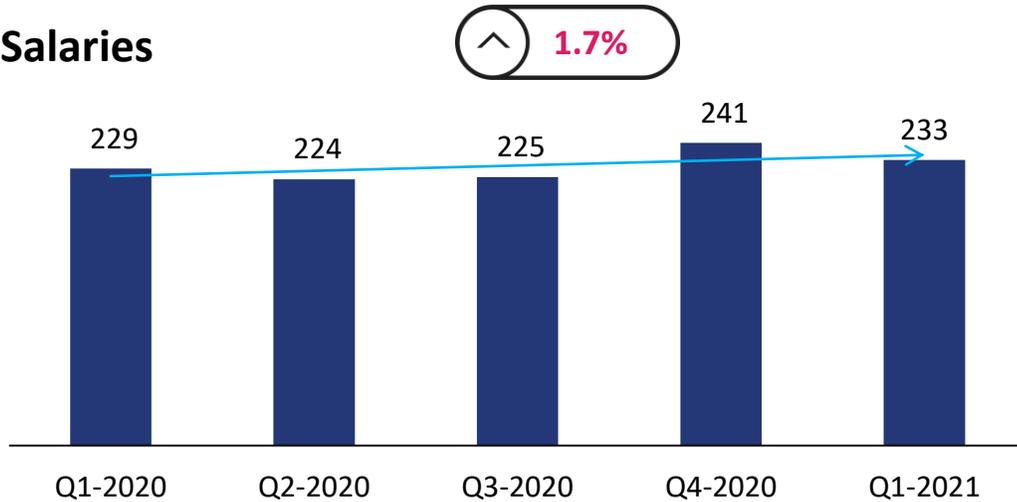
- Increase in revenues from sales of cellular handsets



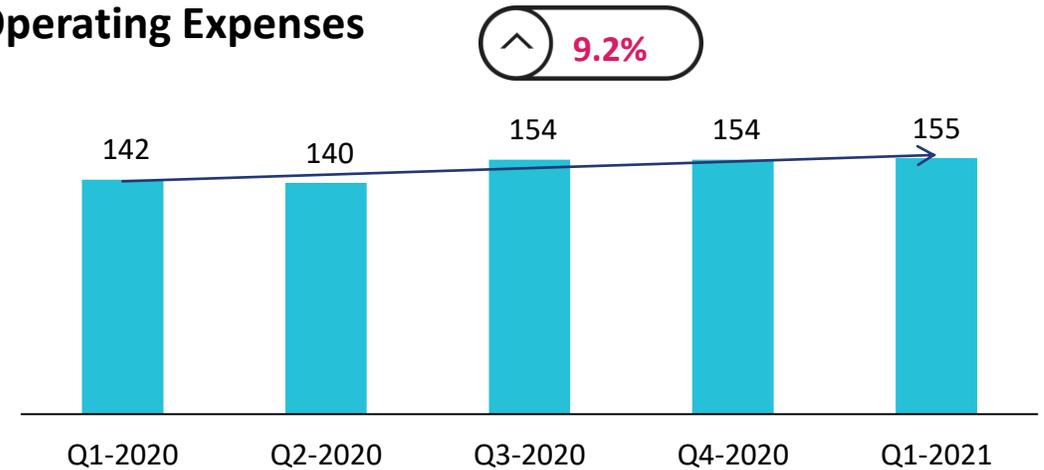
Bezeq Fixed-Line – Key Financial Metrics | NIS million

Expenses

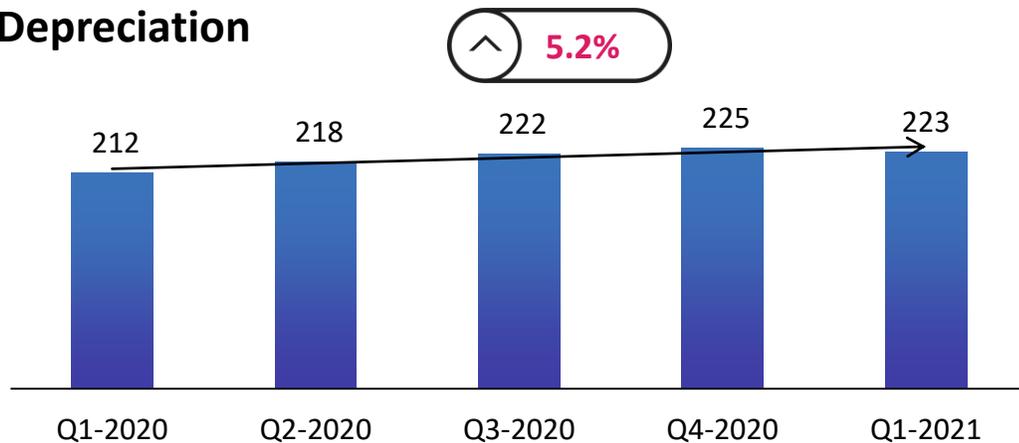
Salaries



Operating Expenses



Depreciation



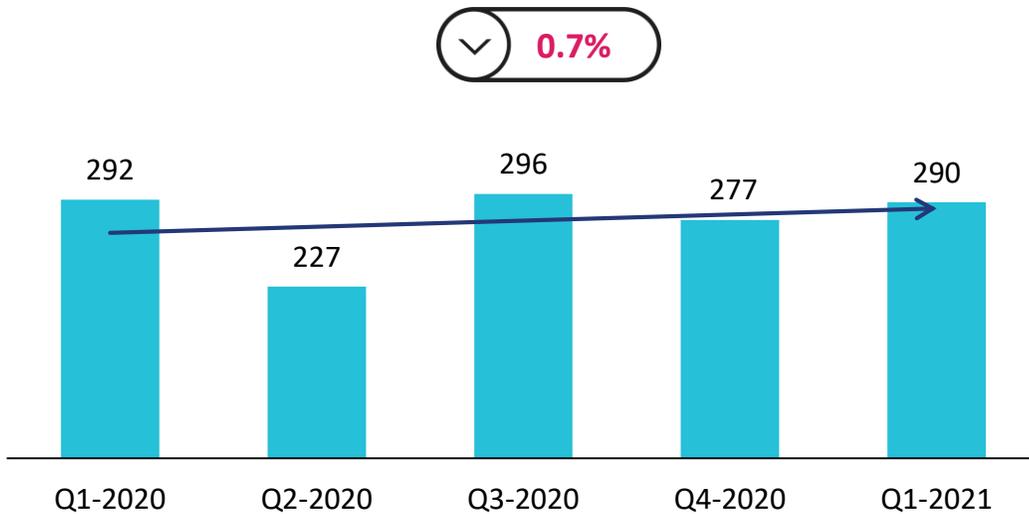
- Salary expenses in Q1-21 included recognition of stock-based compensation of NIS 5 million
- Operating expenses were impacted by an increase in subcontractor expenses



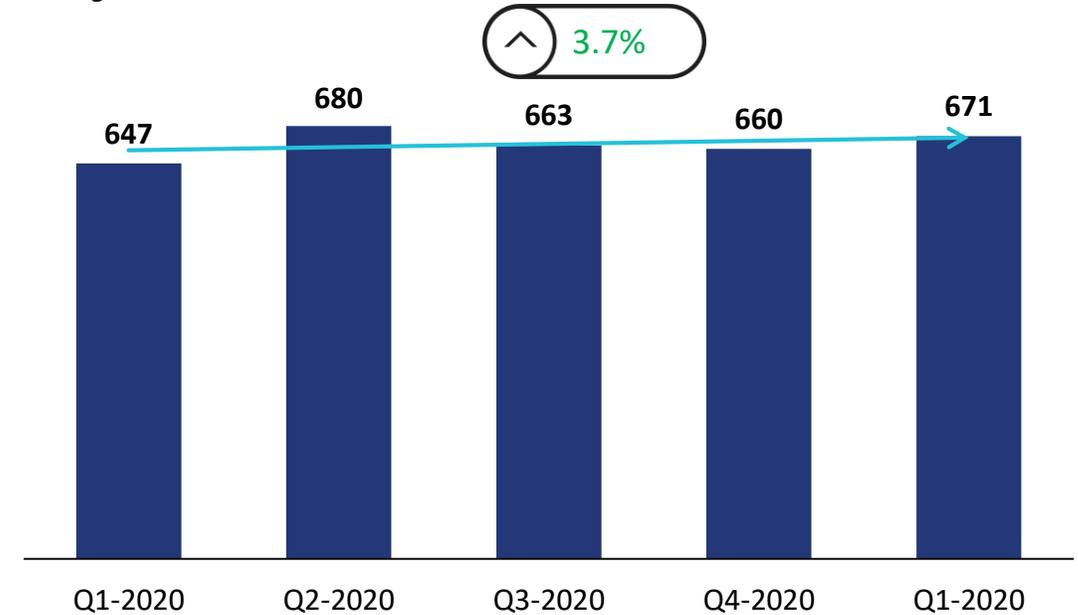
Bezeq Fixed-Line - Adjusted EBITDA and Adjusted Net Profit *

NIS million

Adjusted Net Profit



Adjusted EBITDA





Bezeq Fixed-Line - Summary



Growth in broadband Internet revenues driven by increase in subscribers and ARPU



Tremendous success in sales of BE router and Wifi enhancers



Launch of nationwide deployment of fiber



Leading operations in business sector

Accelerated fiber deployment together with our high quality service will drive the continued growth and strengthening of our position in the residential broadband Internet market

Subsidiary Companies ("Project Alpha")



Bezeq International

yes.



Pelephone



ISP



TV



Mobile

Project Alpha - Completion of First Stage (2019-2021) and Planning of Next Phase

Steps Taken

- Appointed one unified management team to streamline operations, which led to savings of NIS 230* million in 2020 compared to 2018
- Reduced senior management positions by 45% (including those reporting to senior management). Reduced headcount by 1,300 employees in the last two years (Dec 2018 – March 2021)
- Lowered operating expenses through joint procurement for all three companies and savings in real estate

Future Steps Planned

- Savings in investments and costs of support through switch to one CRM system
- Joint sales and service packages – sales of TV services to Bezeq International customers and sales of broadband Internet to yes customers, including triple-play
- Continued streamlining in operating expenses and employee headcount
- Deepen and develop ICT operations – a significant operator in a growing market



Project Alpha – Q1 2021 Highlights

- ✓ Continued growth in **Pelephone and yes** subscribers

- ✓ **29%** of **yes** customers watching TV through IP broadcasting
- ✓ Continued streamlining in employee headcount 
- ✓ Significant improvement in **yes** cash flow 
- ✓ Savings from adopting cheaper streamers instead of expensive set-top boxes 

- ✓ Continued deployment of **Pelephone's** 5G network with accelerated pace of new subscribers



- ✓ Launch of **Bezeq International's** FIBER+ network



- ✓ Growth in **Bezeq International's** business and data operations



Project Alpha – The Next Phase (2022-2024)

The process will yield further efficiencies that are expected to result in savings of tens of millions of shekels a year



- ✓ Anti-Trust Authority approved triple play packages for yes with subsidiary companies without limitations
- ✓ Submitted request to MOC for approval of yes-Bezeq International merger
- ✓ Board approved spin-off of ICT division into a separate company and deepening of synergies and efficiencies in head office services
- ✓ Negotiations with labor unions

Project Alpha - Marching on to Next Generation Technologies

**5G
Mobile**



**Internet
over Fiber
Optics**



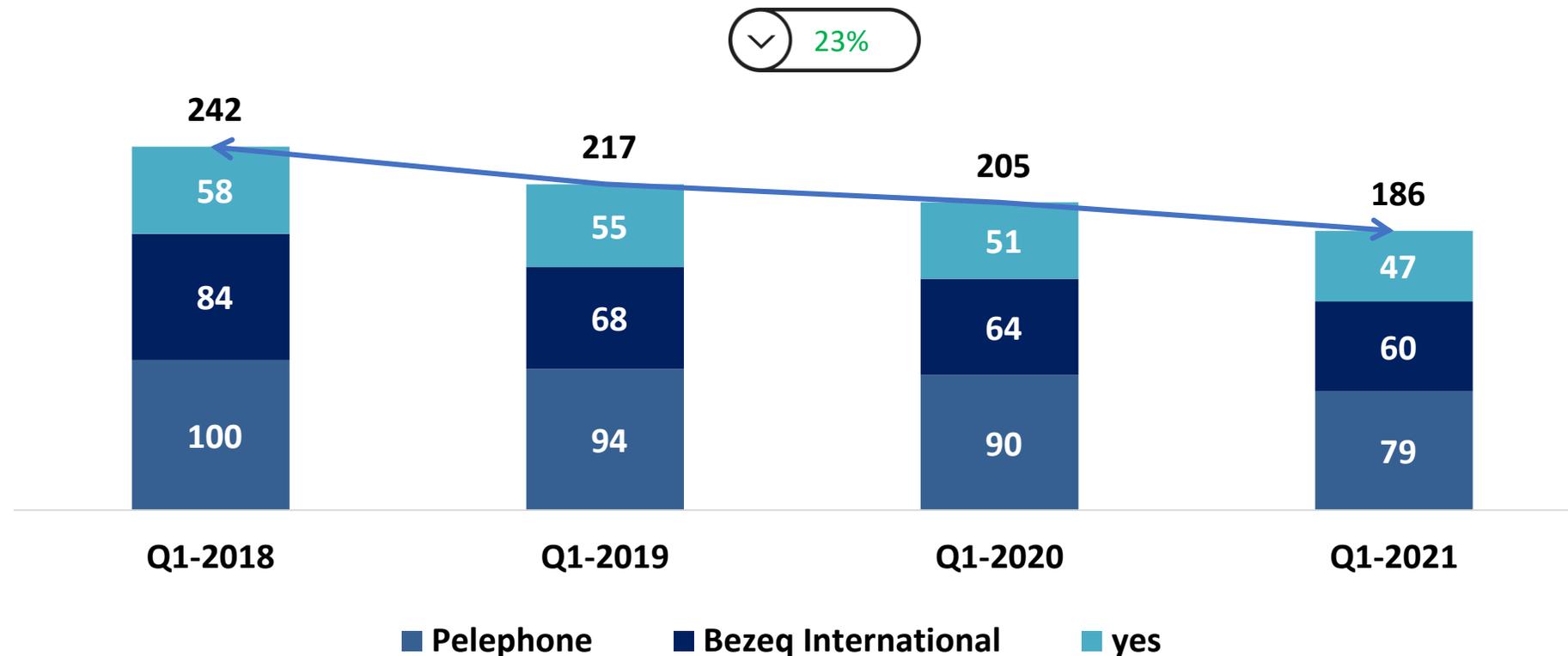
**IP
Broadcasting**



New Generations of Technologies in all Subsidiary Company Operations

Project Alpha – 23% Decrease in Salary Expenses*

NIS million

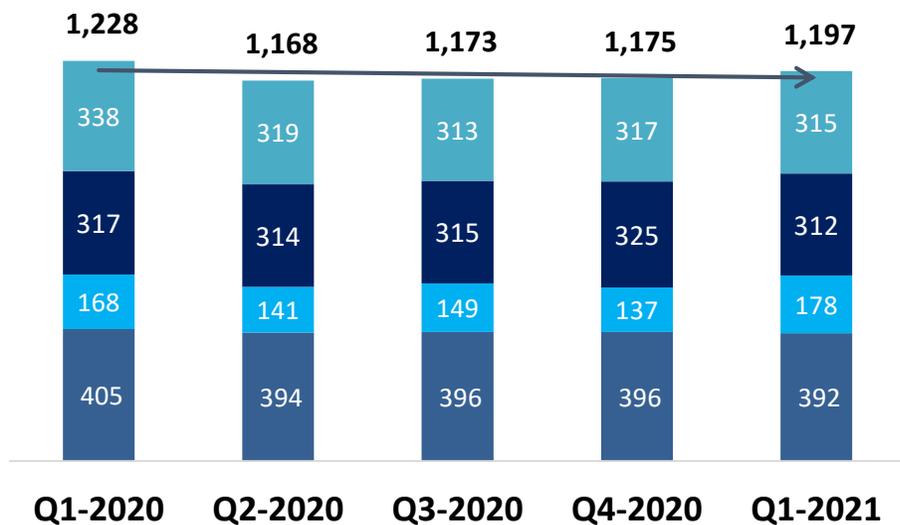


Streamlining measures led to a 23% y-o-y decrease in salary expenses from Q1-2018 to Q1-2021

Project Alpha – Key Financial Metrics* | NIS Million

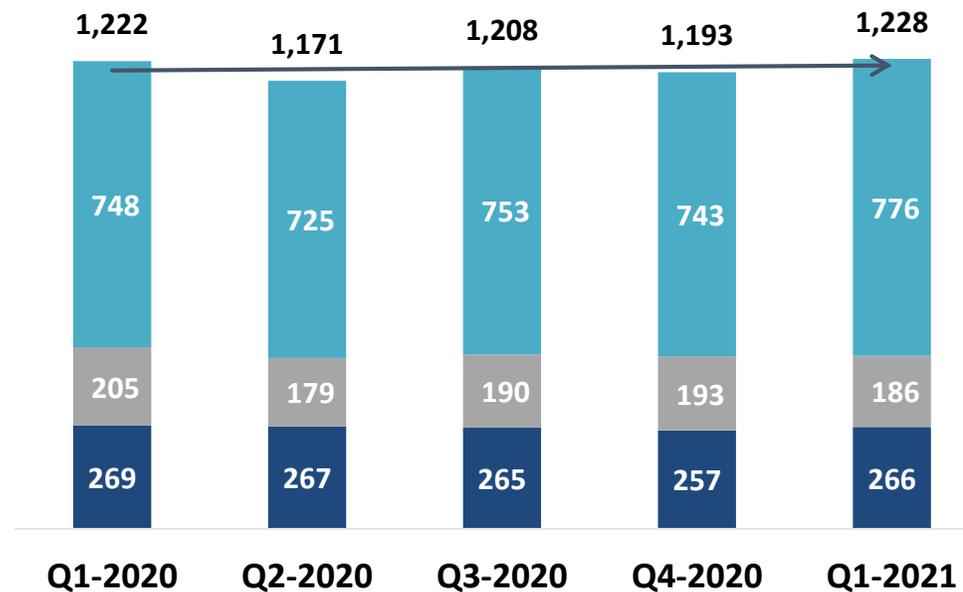
Revenues

Increased revenues in Q1-2021 was due to increased sales of Telephone handsets



■ Telephone –Equipment
 ■ Telephone –Service
 ■ Bezeq International
 ■ yes

Expenses

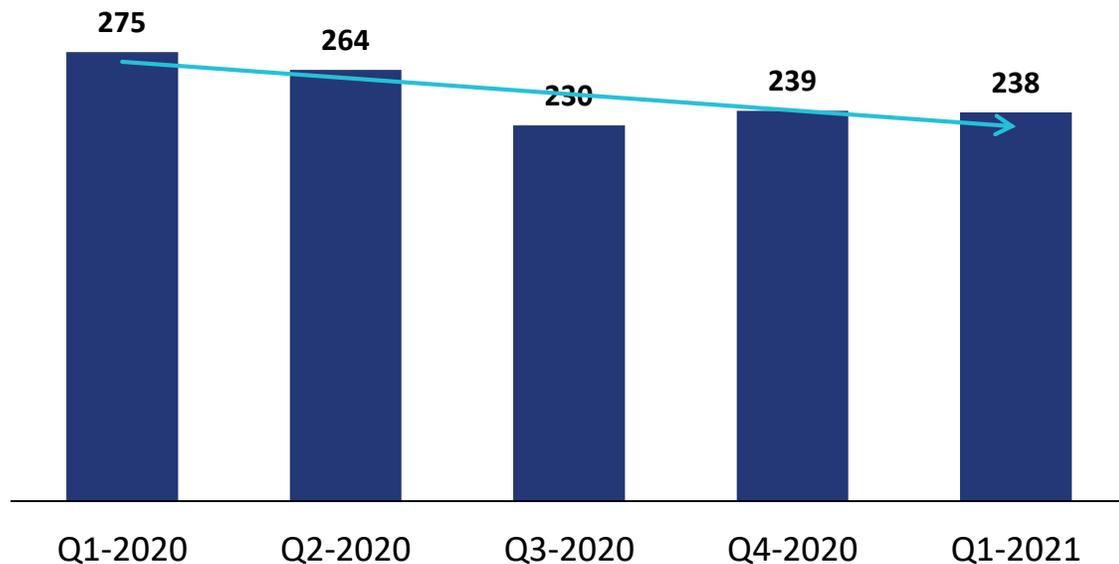


■ Operating Expenses
 ■ Depreciation
 ■ Salaries

- Relatively stable expenses in Q1-2021 with continued decrease in salaries and an increase in equipment expenses (in-line with an increase in equipment revenues)

Project Alpha – Key Financial Metrics* | NIS Million

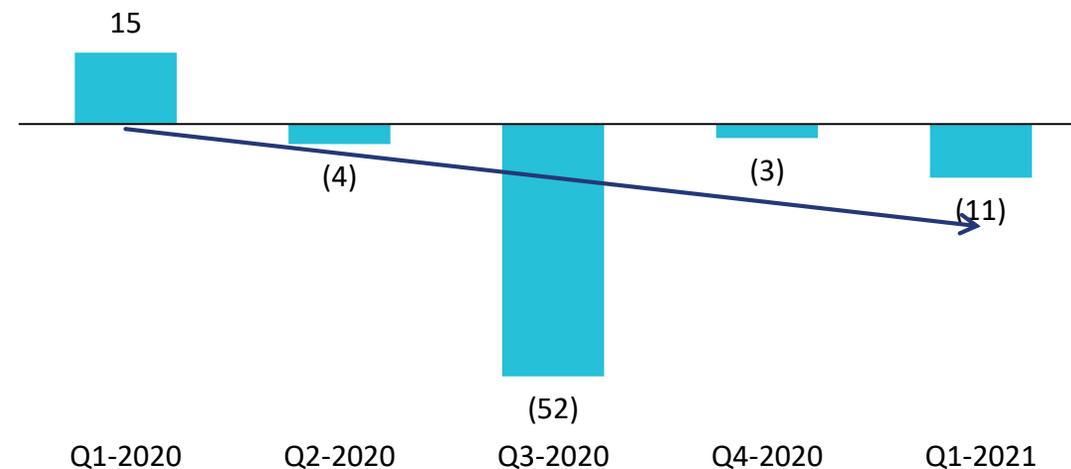
Adjusted EBITDA*



Adjusted EBITDA

- Stable q-o-q
- Decrease y-o-y was primarily due to the reduction in roaming revenues impacted by COVID-19, which was partially offset by improved results in yes and Pelephone through the quick adaption of expenditures to lower revenues

Adjusted Net Profit*





The Next Generation of Cellular in Israel



✓ Record Speed

✓ Diverse **Handsets and Plans**

✓ Premium on **5G services**

✓ Data communications and private **broadband** networks for businesses and organizations

✓ **Wide coverage**, outside and inside the house

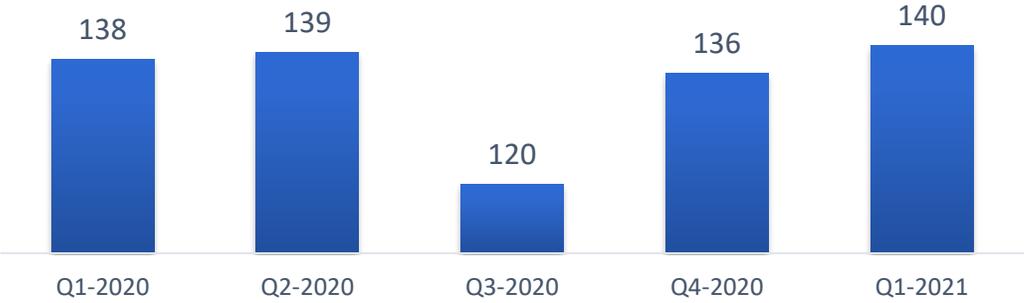
✓ Exclusive use of frequencies gives Pelephone a competitive advantage

Pelephone was the first company to launch and operate 5G network in Israel



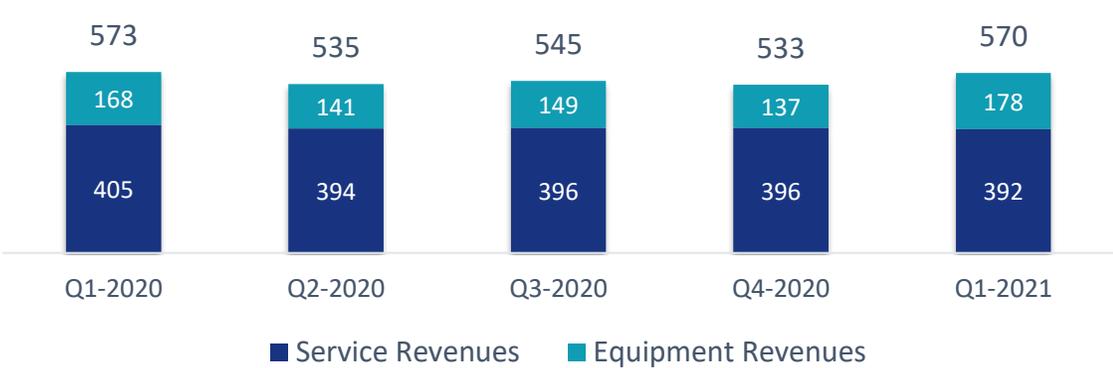
Pelephone – Key Operational & Financial Metrics

Adjusted EBITDA* (NIS million)

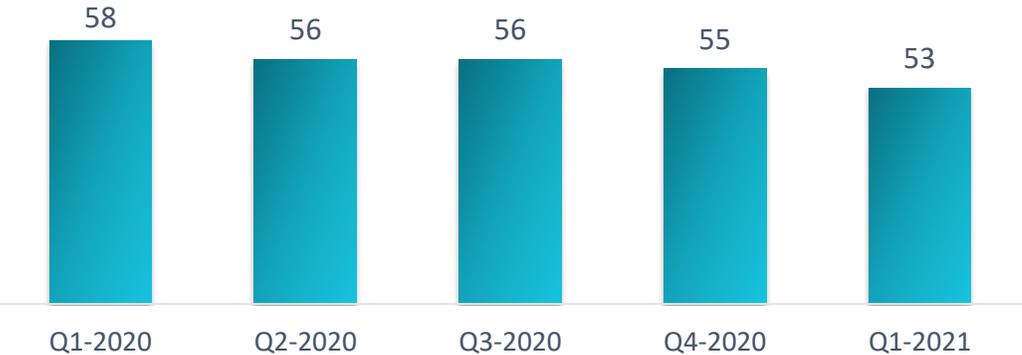


y-o-y and q-o-q growth in Adjusted EBITDA

Revenues (NIS million)

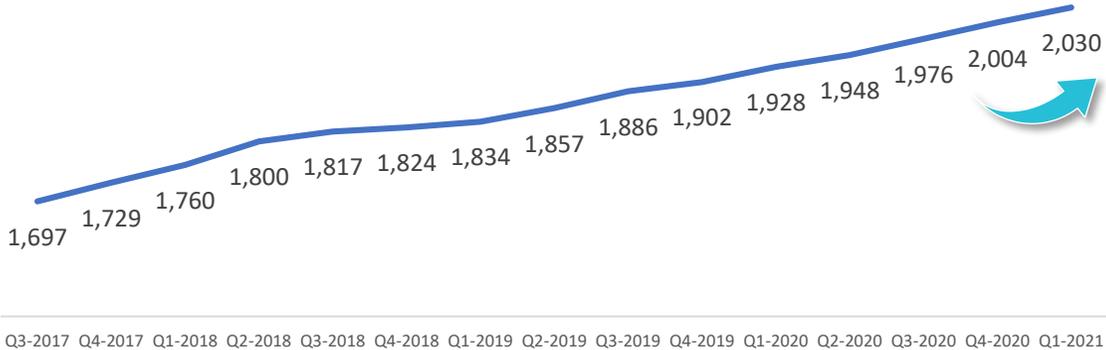


ARPU (NIS)



Decrease in ARPU mainly due to impact of COVID-19 pandemic on roaming revenues

Postpaid Subscribers (thousands)



Q3-2017 Q4-2017 Q1-2018 Q2-2018 Q3-2018 Q4-2018 Q1-2019 Q2-2019 Q3-2019 Q4-2019 Q1-2020 Q2-2020 Q3-2020 Q4-2020 Q1-2021

Subscriber growth for the fifth consecutive year moderated revenue decrease

Bezeq International – Leader in Business Solutions – Significant Operator in a Growing Market

Wide Range of Business Solutions

- Bezeq International has a wide range of data centers in Israel
- Winning significant tenders in Israel; winner of seven IT awards



אבטחת מידע מסביב לעולם בחברת
VISHAY

ספטמבר 21, 2020 בוק בינלאומי

ענקית ההייטק האמריקאית Vishay Intertechnology ביצעה שדרוג גלובלי למערך הגנת המידע שלה באמצעות FW של חברת Fortinet * בוק בינלאומי



המשרדים חוסלו: לייפרסון עברה לעבודה מרחוק באמצעות החדש DATA CENTER החדש של בוק בינלאומי

יולי 26, 2020 רנדה ברוך הנדלר

חסימי עידן הקורונה: חברת ההייטק הבינלאומית לייפרסון החליטה לוותר על הנדל"ן * תעביר את 1,300 עובדיה ברחבי העולם לעבודה מהבית

- Growth in cloud solutions (business applications) and service contracts
- Growth in business and international data services through agreements with a wide variety of international business customers

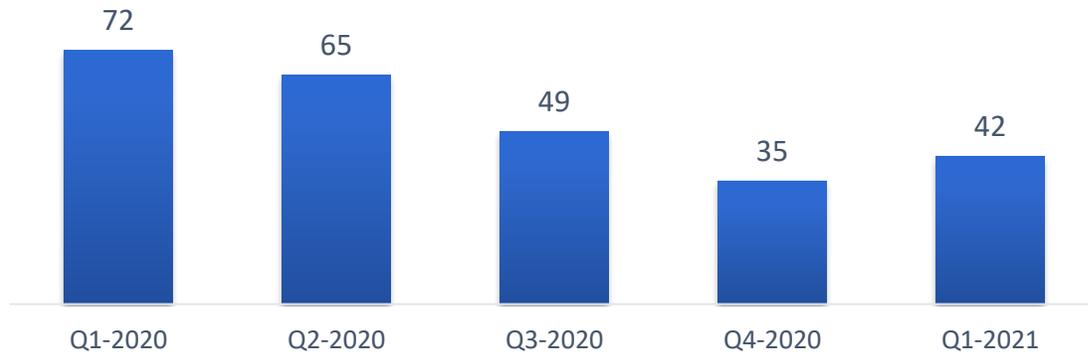
Launch of FIBER+ Network

Moving to Fiber Optics with Fiber+

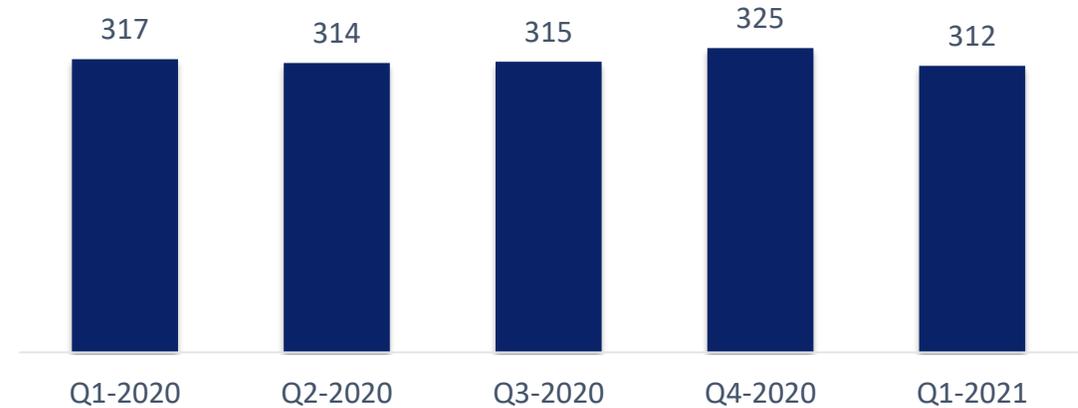


Bezeq International – Key Operational & Financial Metrics

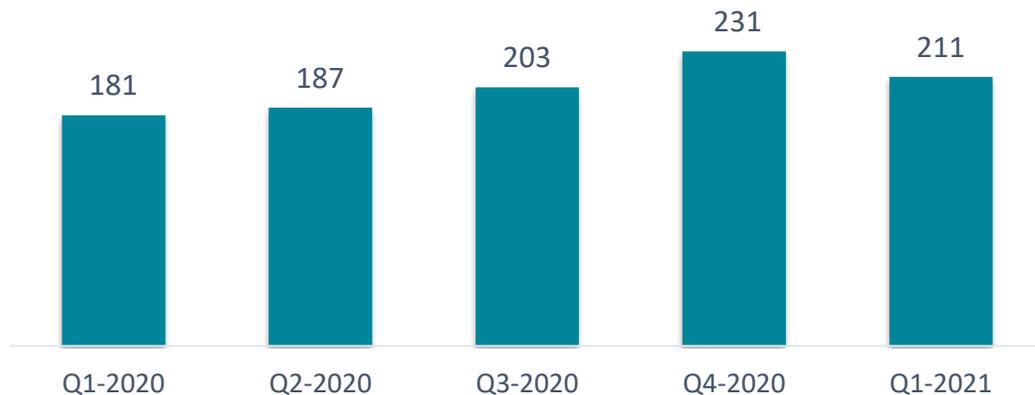
Adjusted EBITDA* (NIS million)



Revenues (NIS million)



Operating Expenses (excluding other expenses, NIS million)



yes – Continued Subscriber Growth and IP Migration

Improved customer experience along with savings in expenses



Continued subscriber growth



Savings in transition from expensive set-top boxes to cheaper streamers



yes+ LIVE

Groundbreaking technology for watching live broadcasts without delay



29% of yes customers watch TV through IP broadcasting



Significant improvement in cash flow

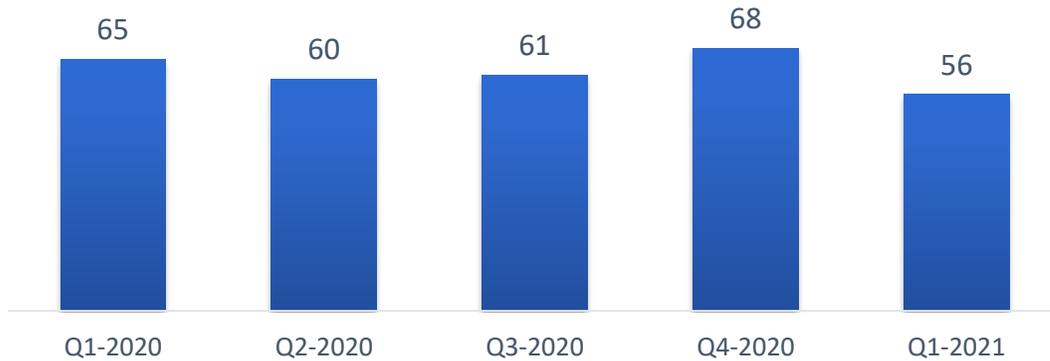


Savings in satellite costs after full transition to IP

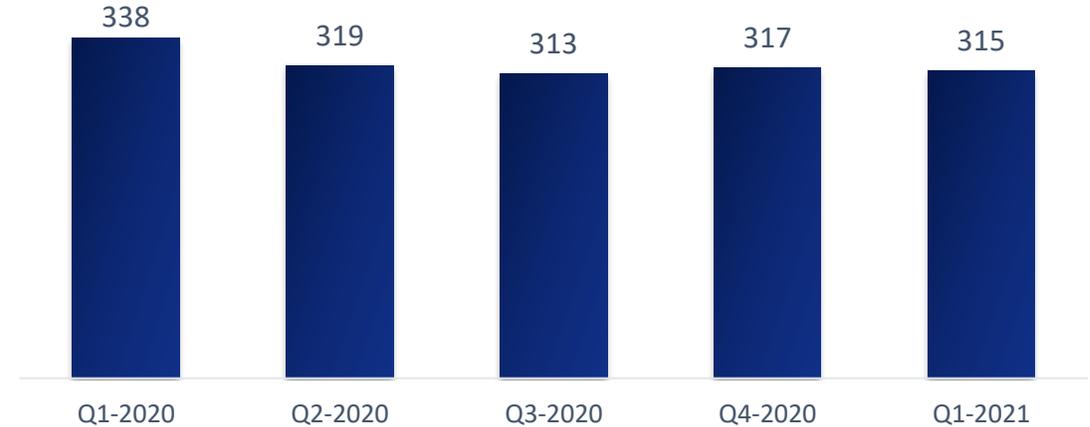


yes – Key Operational & Financial Metrics

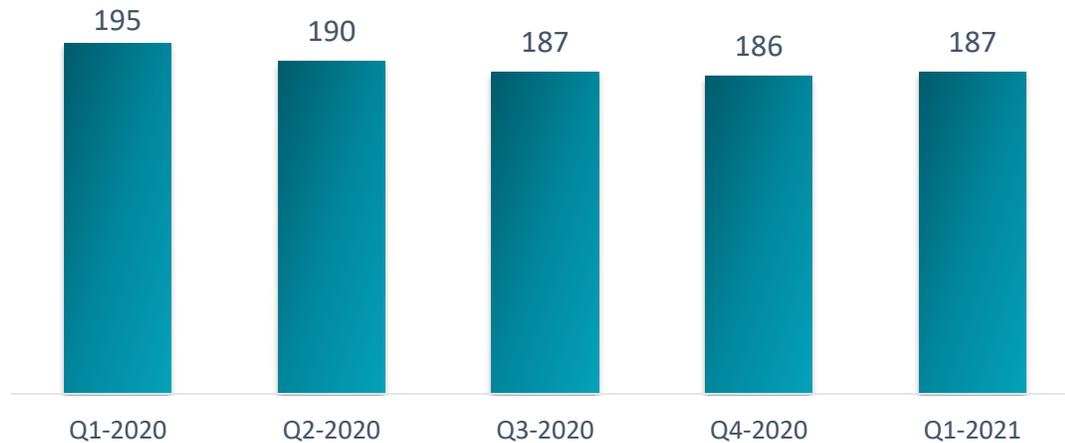
Adjusted EBITDA* (NIS million)



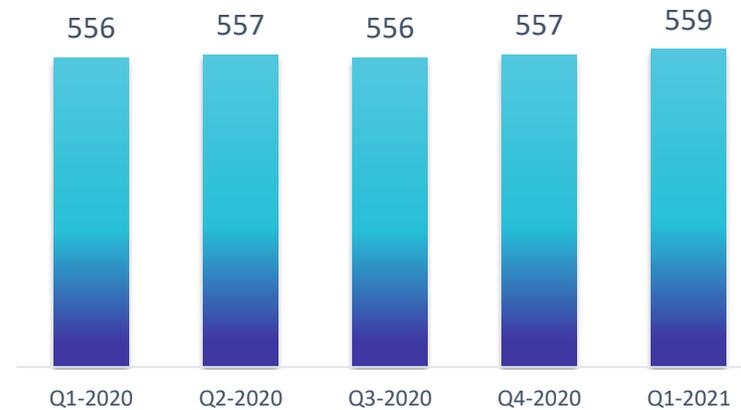
Revenues (NIS million)



ARPU (NIS)



Subscribers (thousands)

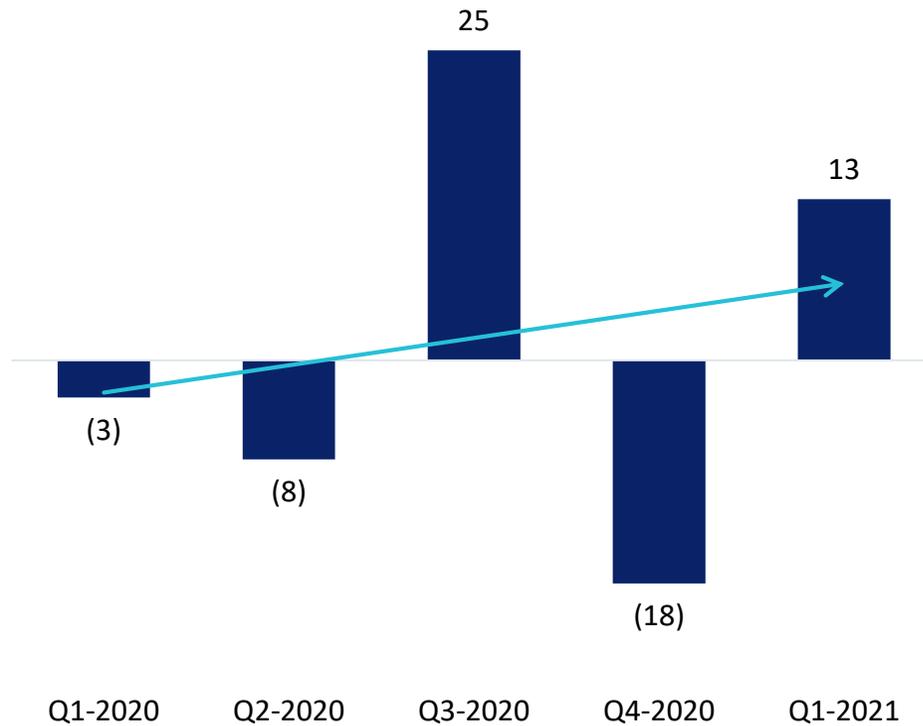


Slowdown in subscriber churn due to increased demand for STING and yes+

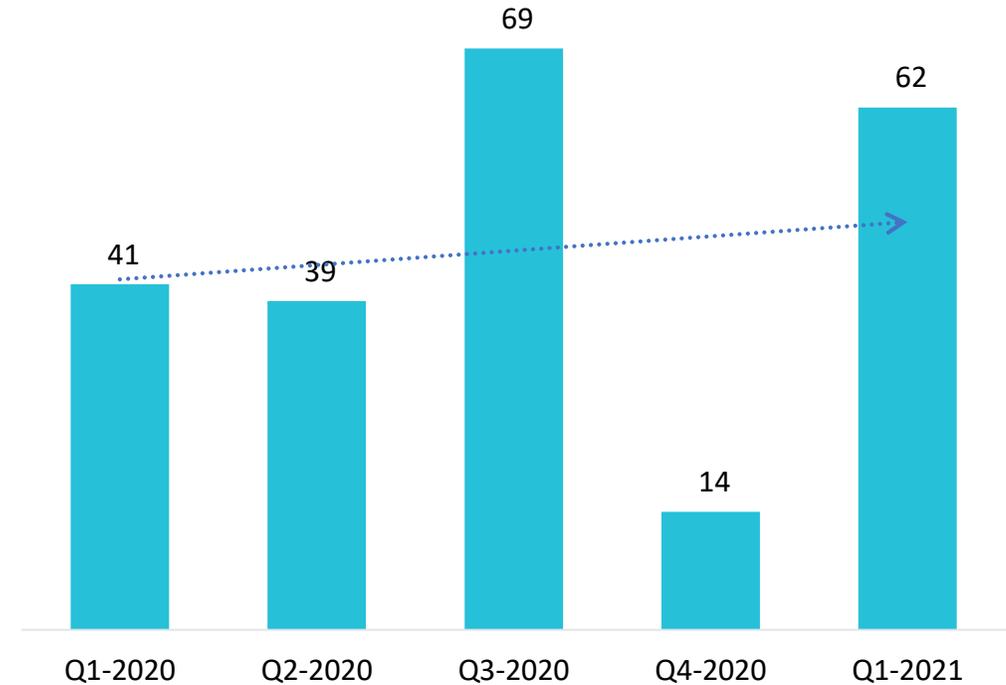
Subscriber growth and NIS 1 ARPU increase q-o-q

yes – Significant Improvement in Cash Flow | NIS Million

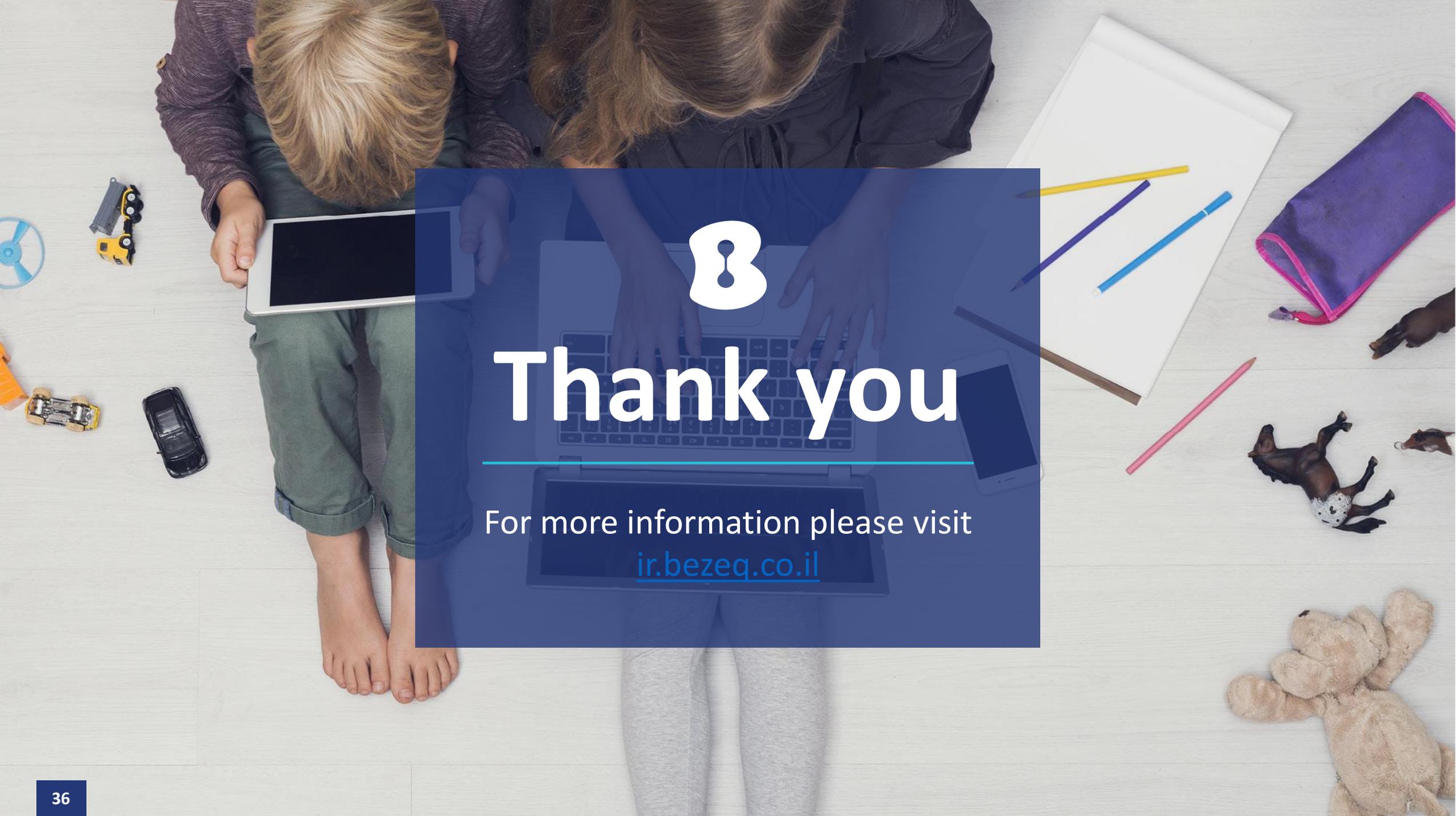
Free Cash Flow



Operating Cash Flow



After a number of years, yes posts significant improvement in cash flow



8

Thank you

For more information please visit

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